Factors Affecting the China Balance Sheet in 2004/05

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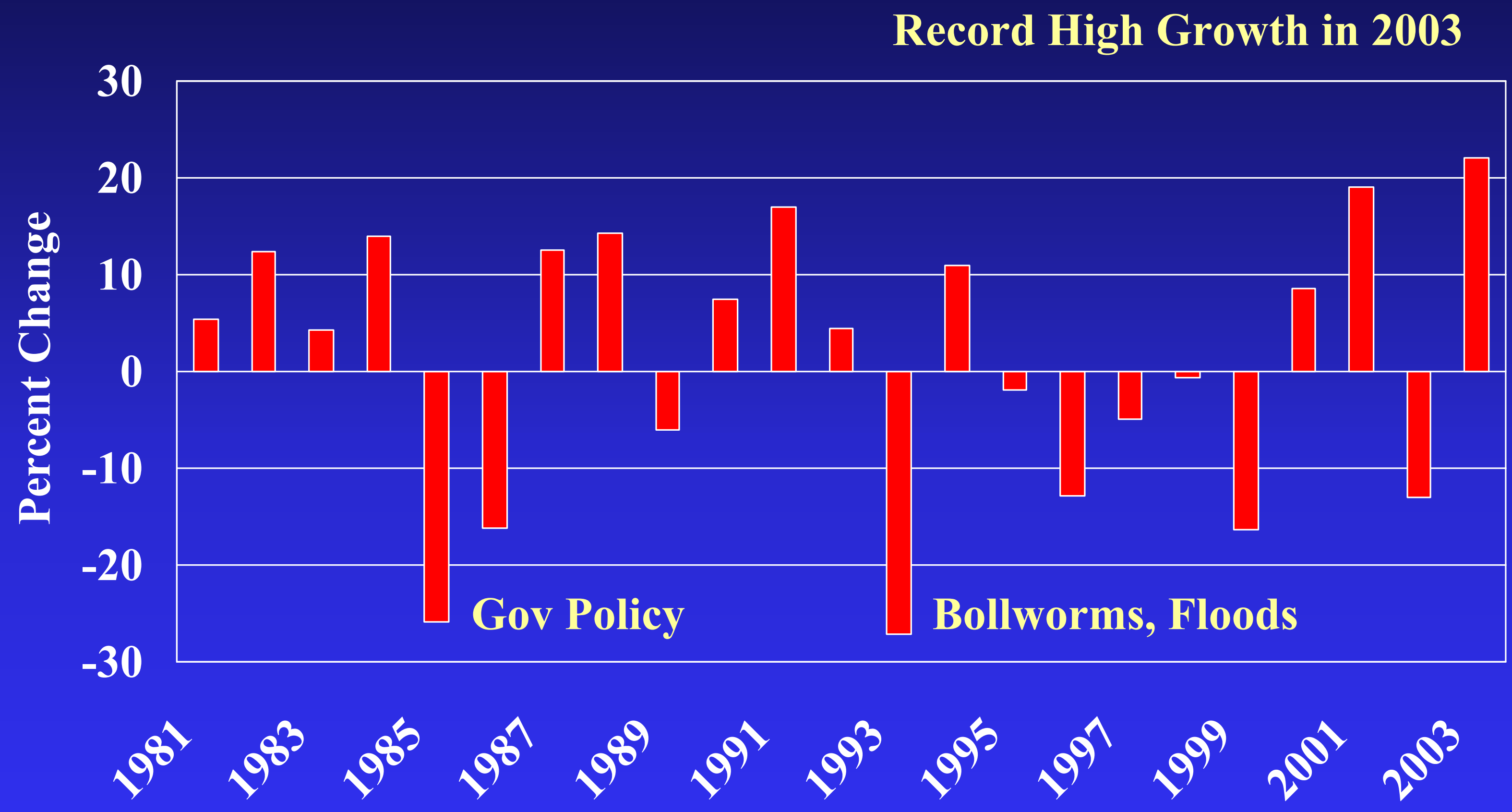
Outlook for Production and Use

- Examine cotton production and consumption outlook for 2004/05
  - Production
    - Establish high, low, moderate area, yield and resulting production estimates
  - Consumption
    - Methodology and sensitivity
    - Establish high, low, moderate estimates

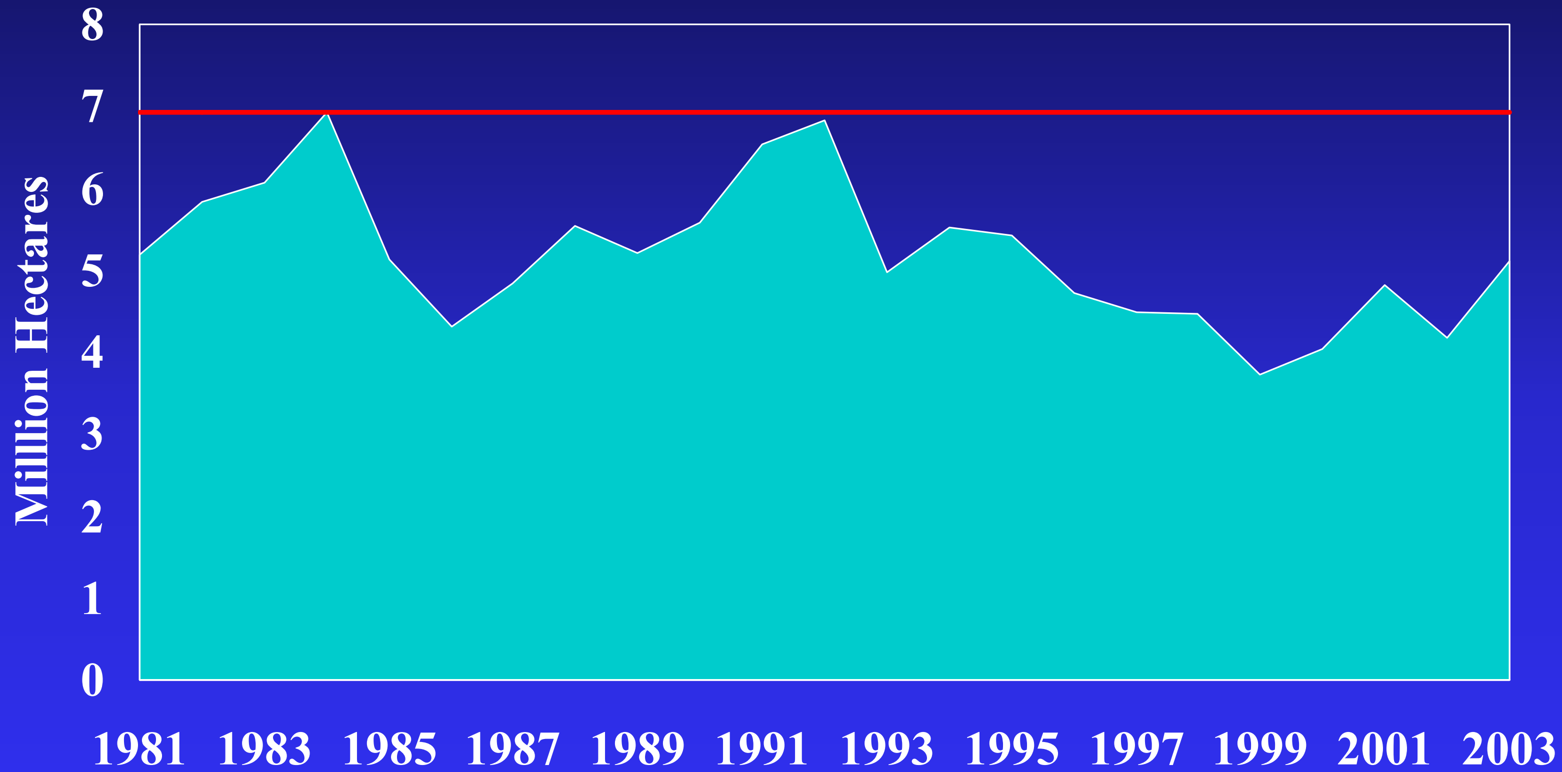
How Will China's Farmers React ?

- How responsive will farmers be to the high cotton prices?
  - Strong area response (+22%) to higher prices (+38%) last year
- Competing crop prices, especially in North China Plain and Yangtze River Valley?
- Availability of seeds and other inputs?

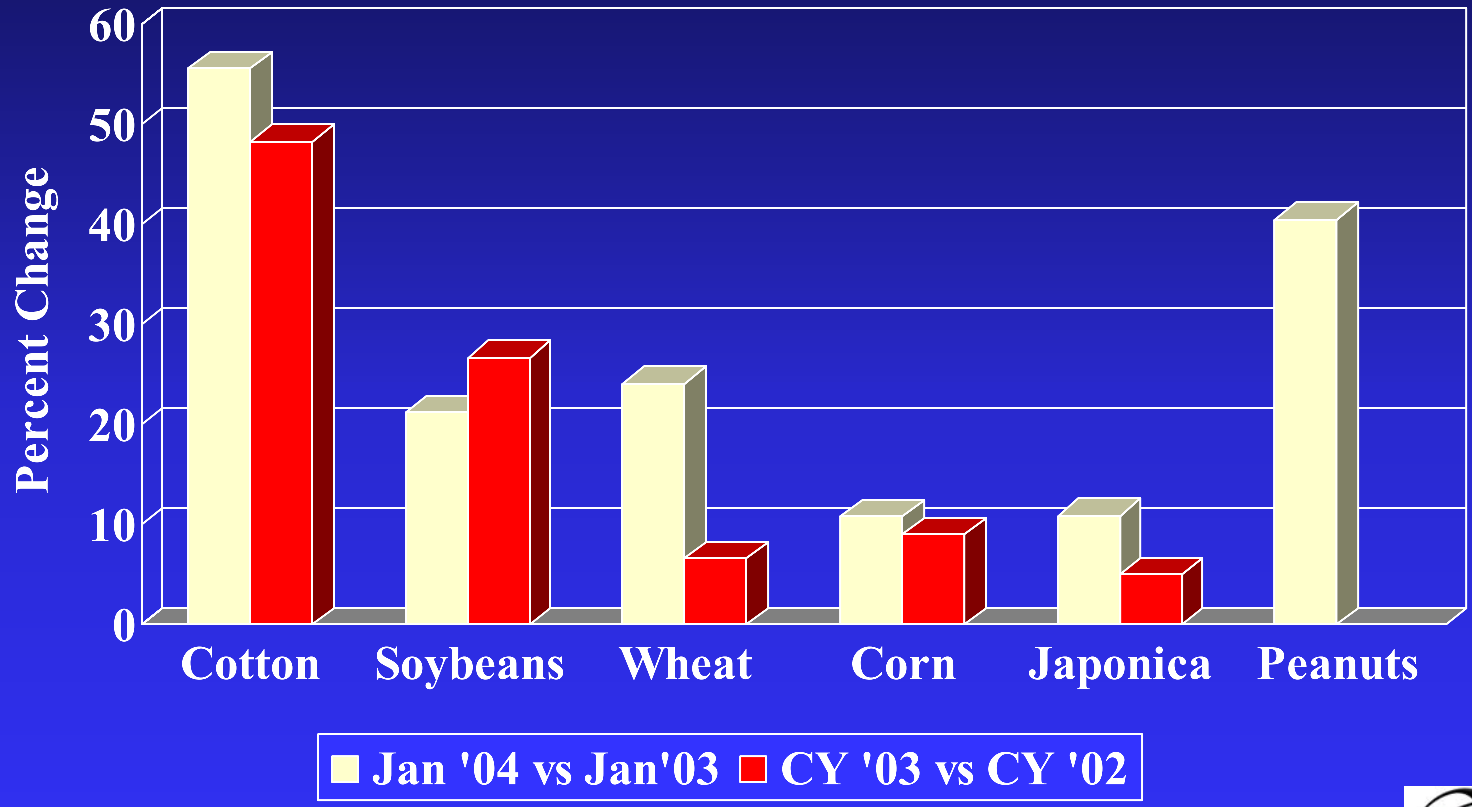
Coming Off of a Record Expansion in Area in 2003/04



Sown Area Remains Well Below Historical High



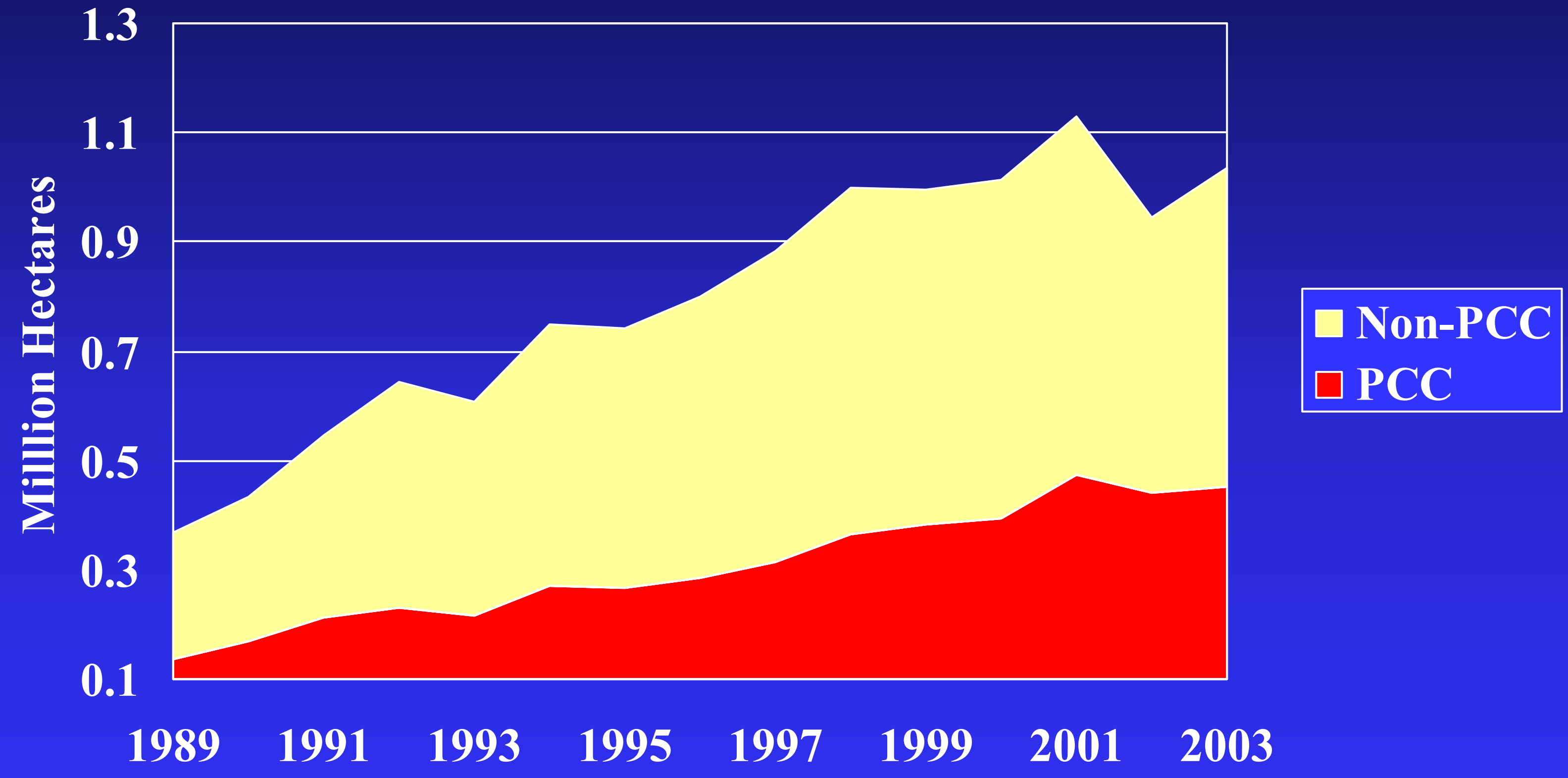
Cotton and Competing Crop Wholesale Market Prices



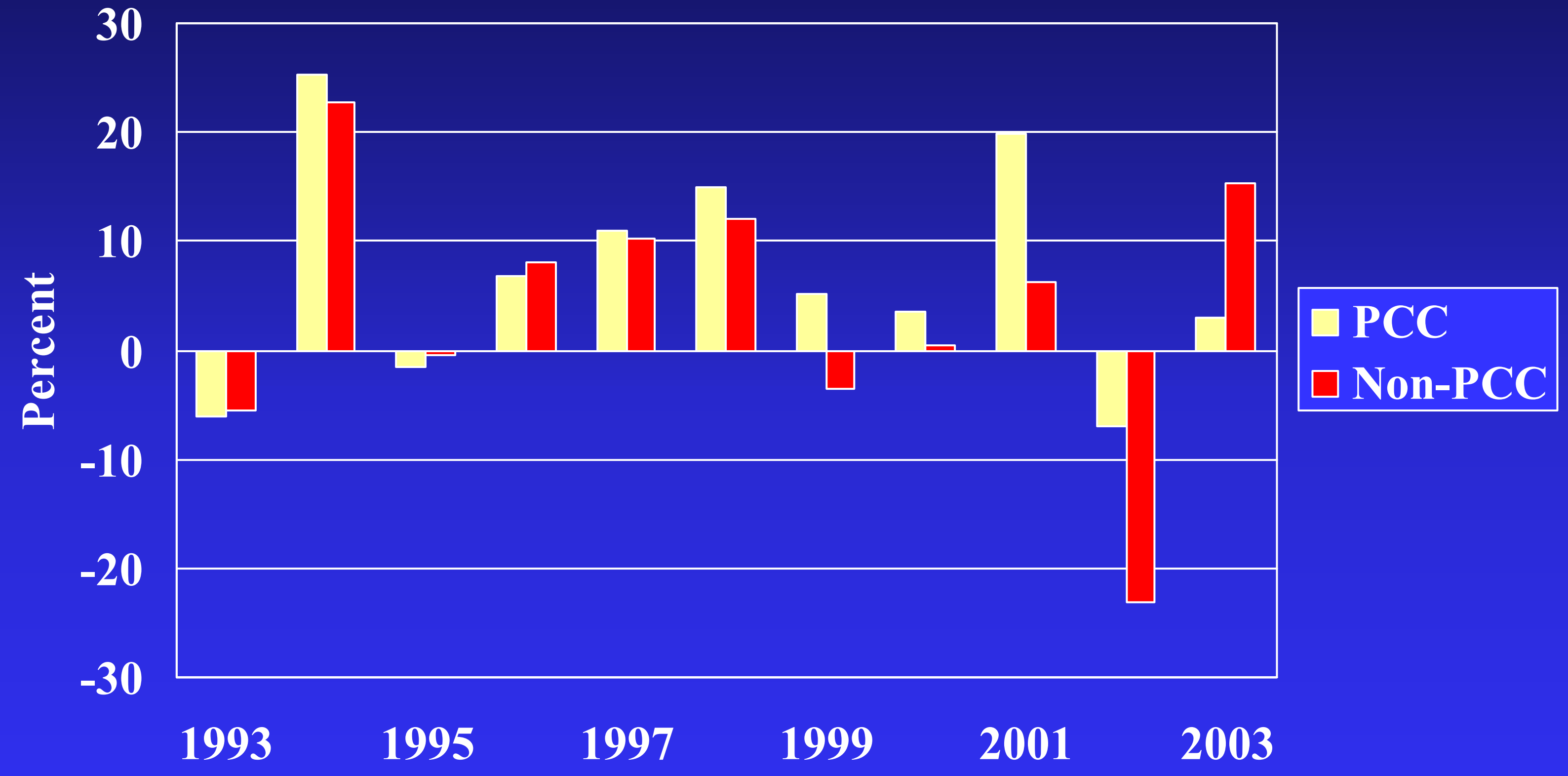
Intention Surveys Show Strong Growth in Area in 2004/05

- Shandong Province:
  - Price Bureau +19.5%
  - Ag Bureau +18.7%
- Jiangxi Province: +15-20%
- Henan Province: +10%
- Sichuan Province: +70%
- Xinjiang PCC Plan: -1.4%

Xinjiang: Area Sown to Cotton



82-85% of Change in Xinjiang Area in 2002 & 2003 by Non-PCC Farms



Key Points for 2004/05 Forecast

- Assume Xinjiang PCC area remains at 2003 level
  - Non-PCC area follows inland trend
- Inputs on balance will meet demand
  - Shandong: Ag Bureau says 90% of expected total seed demand will be met (if true, will hold province's area growth to about 10 percent).
- In general, area expands more in regions with less weather-related yield damage last year

Sown Area Scenarios (1,000 Ha)

Region	Low -Grw th		Moderate-Grw th		High-Grw th	
	10% Non-PCC		*15% Non-PCC*		*20% Non-PCC*	
	2004	% chg	2004	% chg	2004	% chg
China	**5,562**	9.0	**5,795**	13.5	**6,027**	18.1
w /o Xnjng	4,475	10.0	4,679	15.0	4,882	20.0
Xinjiang	1,087	5.0	1,116	7.8	1,145	10.6
PCC	447	-1.4	447	-1.4	447	-1.4
Other	640	10.0	669	15.0	698	20.0

Yield Scenarios (Kilograms/Ha)

Region	Low -Grw th		Moderate-Grw th		High-Grw th	
	5-Yr Average		*1998-2002 Avg*		*2002 Yield*	
	2004	% chg	2004	% chg	2004	% chg
China	**1,071**	12.3	**1,082**	13.4	**1,175**	23.1
w /o Xnjng	961	18.8	978	21.0	1,061	31.3
Xinjiang	1,436	-6.0	1,411	-7.6	1,565	2.5
PCC	1,634	-5.4	1,593	-7.7	1,819	5.3
Other	1,291	-5.8	1,283	-6.4	1,343	-2.0

Output Scenarios (Mil 480-lb Bales)

Region	Low-Grwth		Moderate-Grwth		High-Grwth	
	Low Area-Yld		*Mod. Area-Yld*		*Hi Area-Yld*	
	2004	% chg	2004	% chg	2004	% chg
China	**27.4**	22.4	**28.8**	28.8	**32.5**	45.4
w/o Xnjng	19.8	30.7	21.0	39.1	23.8	57.5
Xinjiang	7.2	-1.2	7.2	-0.4	8.2	13.4
PCC	3.4	-6.7	3.3	-9.0	3.7	3.9
Other	3.8	3.6	3.9	7.6	4.3	17.6

2004/05 Output Forecast Summary

- Area rises between 9 and 18 %
  - Middle est: +13.5 % to 5.8 mil hectares
- Yield rises between 12 and 23 %
  - Middle est: +13.4% to 1,082 kg/ha
- Output: +29 % to 28.8 mil bales
  - Current ICAC estimate is 28.48 mil bales using area up 10 % and "normal yields"

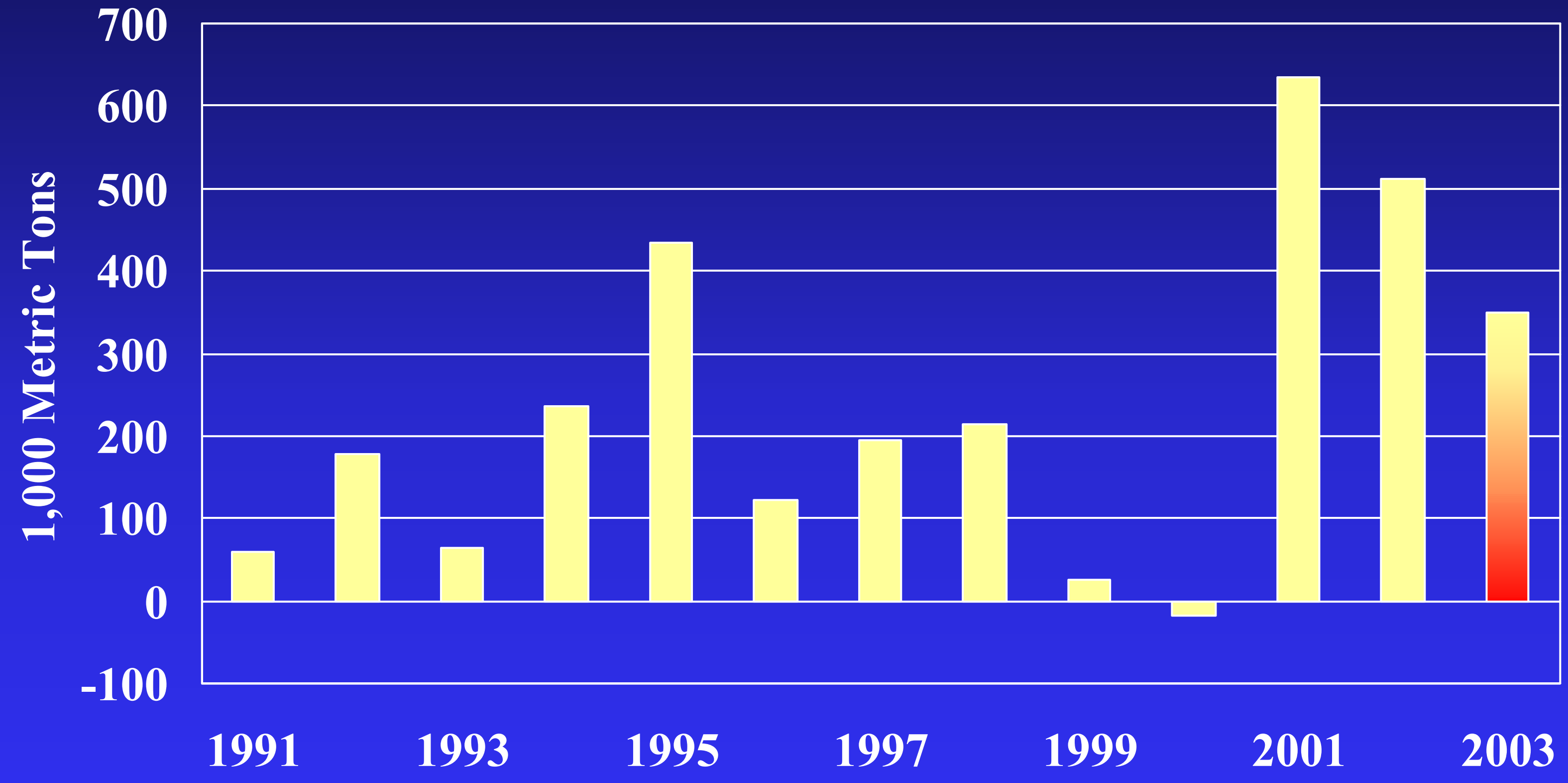
Estimating China’s Cotton Use

- Methodology used is similar to USDA
  - Monthly total yarn output
  - Apply cotton fiber share
- However, requires several key assumptions
  - Total consumption estimate quite sensitive to small errors in the main assumptions

Key Uncertainties & the Sensitivity of the Consumption Estimate

- 1 % change in assumed annual total yarn output = 255,000 bales of cotton use
- 1 % change in assumed cotton fiber share = 500,000 bales of cotton use
- 100,000 ton revision to final annual yarn output = 290,000 bales of cotton use
- A 1 % error in all three assumptions would change use by well over 1 million bales

Past Revisions to Annual Total Yarn Output



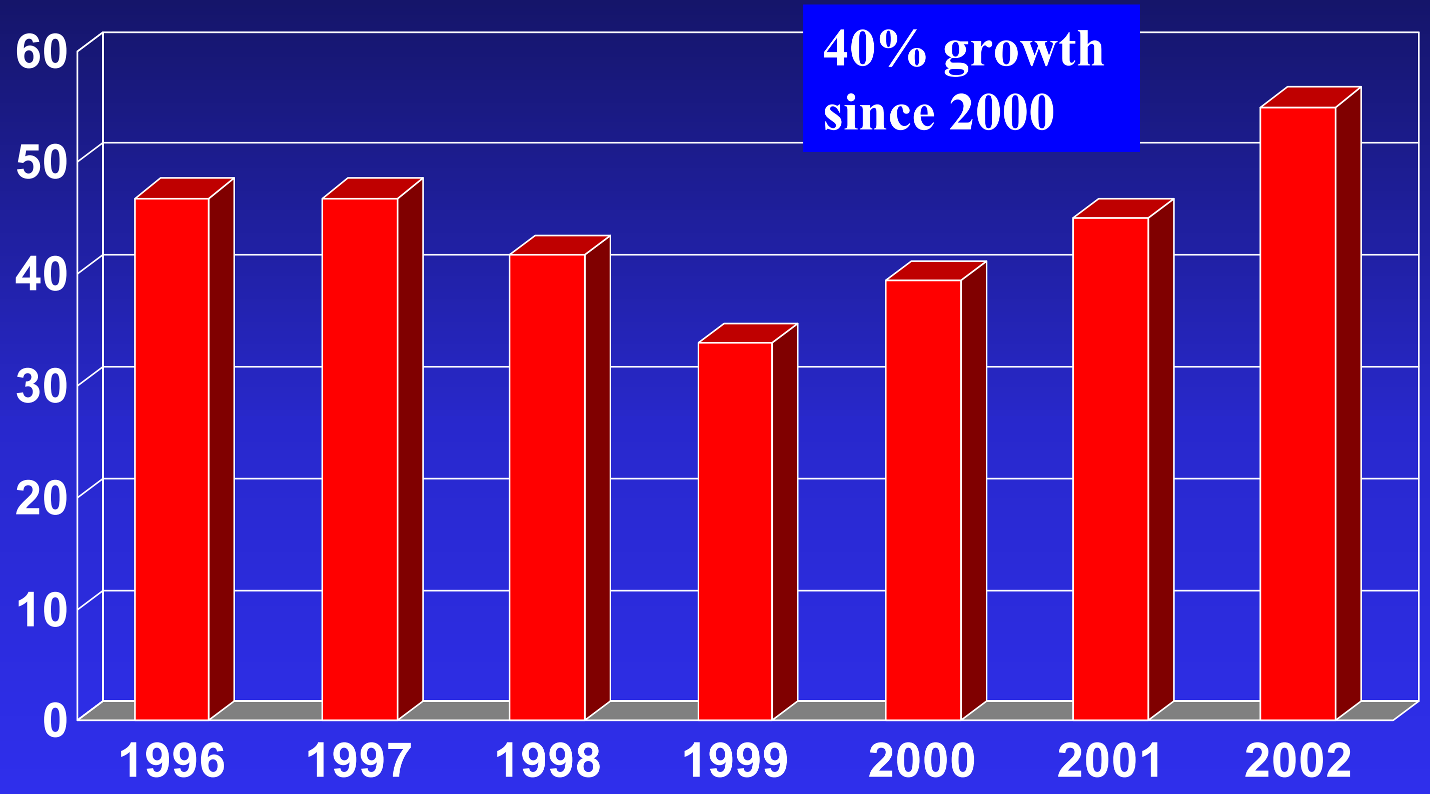
Points to Remember….

- Revision to CY 2003 yarn output pending, will impact 2002/03 and 2003/04 estimates
  - Large upward revisions in the last few years as output has soared…a similar direction and magnitude this year?
- High cotton prices…not clear how much fiber share has been impacted…are there constraints to how much it can change?

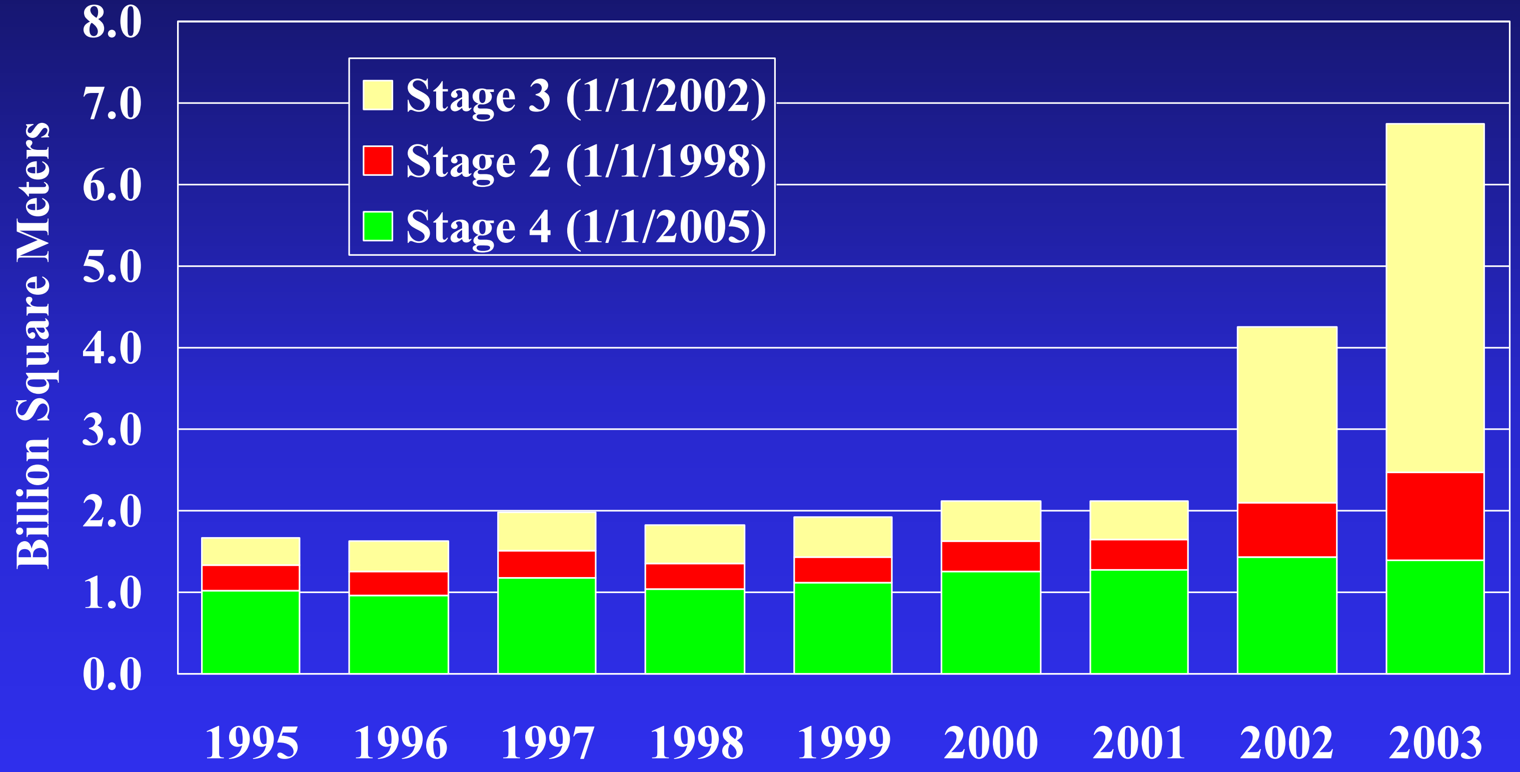
Key Drivers of Use in 2004/05

- Continued growth in textile/apparel exports in 2004, though slower than in 2003
- But explosive growth in 2005 as last of ATC quotas removed
  - Anticipating change, yarn/fabric demand increases prior to January 1, 2005?
- Healthy domestic economic growth boosts domestic retail apparel sales

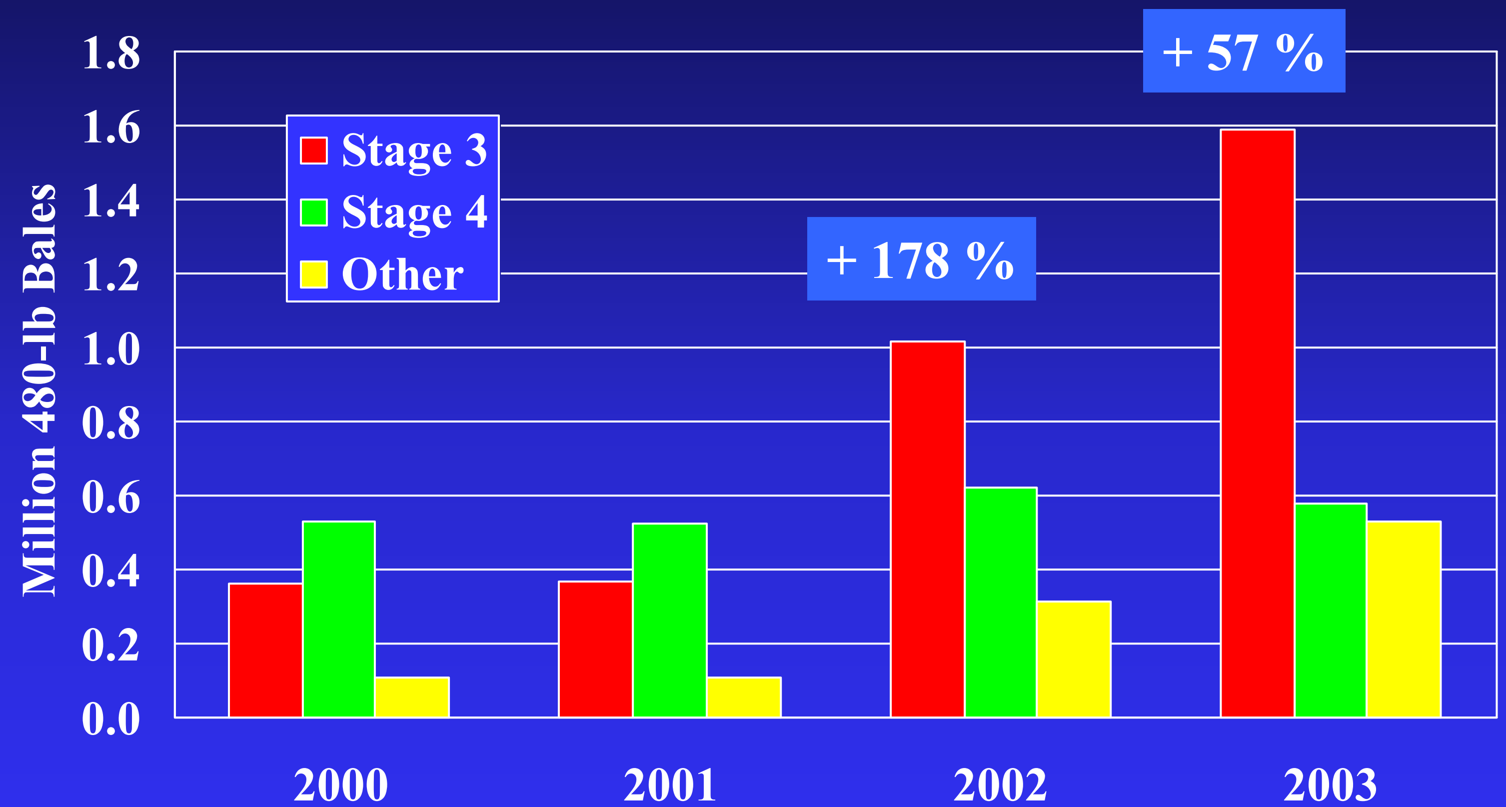
Rapid Expansion in Spindles (Year-End, in Millions)



U.S. Imports of Textiles & Apparel from China by Liberalization Stage



U.S. Cotton Product Imports from China in 480-lb Bale Equivalents



Impact of Stage 4 Liberalization?

- Stage 3 saw 178+ percent growth in cotton product imports
  - Stage 3 dominated by made-ups
  - Stage 4 dominated by apparel
- China's cotton use up 11.9% in 2002/03
- Suggests at least 10 % growth in 2004/05

Consumption Growth Forecasts: Low 5%, Moderate 10%, High 15%